

Message Text

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PASS TREASURY, CEA, AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, ECON, OECD
SUBJECT: DOCUMENTATION FOR MARCH 22-23 MEETING OF
EPC'S WP-3 EXPERTS GROUP

REF: A) OECD PARIS 6420, B) CPE/WP3(77)3

1. THERE FOLLOWS TEXT (EXCLUDING FOOTNOTES) OF
SECRETARIAT NOTE PREPARED FOR MARCH 22-23 MEETING OF
EXPERTS AGREED TO AT FEB. 28 SESSION OF WORKING PARTY
THREE OF ECONOMIC POLICY COMMITTEE (PARA. 11, REF A).
TITLE IS "THE BALANCE OF PAYMENTS IN THE MEDIUM TERM:
AN ANNOTATED AGENDA. DOCUMENT DES/NI(77)2 REFERRED
TO IN TEXT WILL NOT BE ISSUED BEFORE MARCH 17.

BEGIN TEXT

1. THIS NOTE SUGGESTS WHAT MIGHT BE PROFITABLE AREAS OF
DISCUSSION AT THE MEETING OF NATIONAL EXPERTS WHICH HAS
BEEN CALLED FOR 22ND-23RD MARCH TO CONSIDER THE GENERAL
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LINES OF FURTHER WORK ON THE ANALYSIS OF MEDIUM-TERM
BALANCE OF PAYMENTS TRENDS. THE MAIN SECRETARIAT
DOCUMENT WHICH IS RELEVANT IS "THE FUTURE PATTERN OF
CURRENT BALANCES AND THEIR FINANCING" (CPE/WP3(77)L).
ALSO RELEVANT ARE THE SECRETARIAT NOTES ON THE OPEC
CURRENT BALANCE TO 1985 AND ON COMPETITIVE POSITIONS
(DES/NI(77)1 AND 2).

GENERAL APPROACH

2. THE EXERCISE IS BASED ON THE PROPOSITION THAT, WITHOUT PREJUDGING HOW THE RESULTS MIGHT BE USED BY THE WORKING PARTY, THERE IS INTEREST IN IDENTIFYING THE GENERAL TRENDS AND TENDENCIES IN THE STRUCTURES OF COUNTRIES' BALANCES OF PAYMENTS. AN EARLIER APPROACH TO THIS SUBJECT INVOLVED AN ATTEMPT TO ASSESS UNDERLYING POSITIONS BY CORRECTING OBSERVED OR ESTIMATED FIGURES FOR THE INFLUENCE OF CYCLICAL AND OTHER TEMPORARY FACTORS. ANALYSIS OF THIS KIND, WHICH PLAYED AN IMPORTANT ROLE IN THE DISCUSSIONS LEADING UP TO THE SMITHSONIAN AGREEMENT, WAS SUBSEQUENTLY REGARDED BY COUNTRIES AS UNSATISFACTORY FOR VARIOUS REASONS. THE NEW APPROACH IS TO MAKE PROJECTIONS, ON CLEARLY STATED ASSUMPTIONS, FOR A PERIOD LYING SUFFICIENTLY FAR AHEAD FOR SHORT-TERM INFLUENCES TO BE IGNORED, AND TO EXAMINE THE EFFECTS OF VARYING THE ASSUMPTIONS. TO THE EXTENT THAT A SET OF ASSUMPTIONS CAN BE PUT TOGETHER WHICH COUNTRIES FIND REASONABLE, THIS SHOULD PROVIDE USEFUL INDICATIONS OF POSSIBLE DEVELOPMENTS. MOREOVER, TO THE EXTENT THAT SIMILAR UNDERLYING PROBLEMS EMERGE FOR A FAIRLY WIDE RANGE OF PLAUSIBLE ASSUMPTIONS, THIS RESULT COULD ALSO PROVIDE A USEFUL BASIS FOR DISCUSSION IN THE WORKING PARTY ITSELF.

BOUNDARY CONDITIONS

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3. WHILE THE BALANCE OF PAYMENTS, CURRENT AND CAPITAL, OF THE OECD AREA AS A WHOLE IS OF COURSE NOT INDEPENDENT OF THOSE OF ITS MEMBER COUNTRIES, IT MAY BE USEFUL TO START BY ESTABLISHING AN APPROXIMATE IDEA OF THE AREA'S TOTAL POSITION, CONSISTENT WITH THOSE OF THE OTHER MAJOR WORLD ZONES. APART FROM STATISTICAL DISCREPANCIES' THE "BOUNDARY CONDITIONS" FOR THE OECD AREA ARE SET ESSENTIALLY BY THE BALANCES OF:

- OPEC COUNTRIES

- SINO-SOVIET COUNTRIES

- NON-OIL DEVELOPING COUNTRIES.

4. AS REGARDS THE OPEC BALANCE OF PAYMENTS, THE SECRETARIAT HAS SET OUT ITS ASSUMPTIONS IN DES/NI(77)1. IF THE EXPERTS WISHED TO PURSUE THIS SUBJECT, THE DISCUSSION COULD PROBABLY BE USEFULLY DIVIDED INTO LIMITED OFFICIAL USE

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CONSIDERATION OF (A) THE ENERGY-RELATED ASSUMPTIONS; (B) QUESTIONS RELATED TO THE ABSORPTIVE CAPACITY OF OPEC COUNTRIES. THE SECRETARIAT'S TREATMENT OF THE NON-OIL DEVELOPING AND SINO-SOVIET GROUPINGS IS TOUCHED ON BRIEFLY IN PARAS. 7-9 OF CPE/WP3(77)1. IN A NUTSHELL, THE METHODOLOGY STARTS BY LOOKING AT LIKELY CAPITAL FLOWS INTO THESE ZONES, ON WHICH - TAKING ONE YEAR WITH ANOTHER - THEIR CURRENT ACCOUNT DEFICITS ARE ASSUMED TO DEPEND. DISCUSSION HERE MIGHT TOUCH NOT ONLY ON THE REASONABLENESS OF THE FIGURES ASSUMED BY THE SECRETARIAT, BUT ALSO ON WHETHER ALTERNATIVE APPROACHES CAN YIELD IMPROVED RESULTS - BEARING IN MIND THAT THE SUBJECT OF INTEREST HERE IS THE OECD'S BALANCE OF PAYMENTS, NOT THE AFFAIRS OF THE NON-OECD COUNTRIES THEMSELVES.

5. ONCE ATTENTION IS MORE NARROWLY FOCUSED ON THE MEMBER COUNTRIES OF THE WORKING PARTY, A FURTHER BOUNDARY CONDITION IS IMPOSED BY THE REMAINING OECD COUNTRIES. DISCUSSIONS IN THE TEMPORARY WORKING PARTY AND ELSEWHERE SUGGEST THAT THE DEBT SITUATION OF A NUMBER OF THESE COUNTRIES IS SUCH THAT THEY MAY ENCOUNTER FINANCING PROBLEMS. IF SO, THIS WOULD SUGGEST THAT THEY TOO COULD BE THOUGHT OF IN THE FUTURE AS RUNNING A CURRENT DEFICIT DETERMINED BY THE EXTENT OF CONTINUING CAPITAL INFLOWS.

CAPITAL MOVEMENTS

6. IN GENERAL THE ASSUMPTION FOR INDIVIDUAL COUNTRIES IS THAT CAPITAL MOVEMENTS AND CURRENT BALANCES WILL BE OFFSETTING. WHAT IS OF INTEREST IS HOW THIS EQUILIBRIUM COMES ABOUT, IN PARTICULAR THE ROLE OF EXCHANGE RATES AND OF DIFFERENT KINDS OF CAPITAL FLOW. IN PART III OF CPE/WP3(77)1, AN ATTEMPT IS MADE TO CONSIDER THE BEHAVIOUR OF THE MAIN KINDS OF CAPITAL LIMITED OFFICIAL USE

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MOVEMENTS, LOOKING AT THE HISTORICAL RECORD AND THE MODIFICATIONS MADE NECESSARY BY THE CHANGES SINCE THE OIL PRICE EXPLOSION. IN GENERAL, THE CONCLUSION SEEMS TO EMERGE THAT THERE COULD BE AN ACCEPTABLE CONSTELLATION OF MATCHING CAPITAL FLOWS TO QUITE A WIDE RANGE OF POSSIBLE OUTCOMES ON CURRENT ACCOUNT, THOUGH THE MARGINS ARE PROBABLY NARROWING FOR SOME COUNTRIES. NEVERTHELESS, THE WORK HERE HAS NOT ADVANCED FAR; IT WOULD BE PARTICULARLY VALUABLE TO HAVE NATIONAL VIEWS ON THE BREAKDOWN OF CAPITAL MOVEMENTS THAT IS FOUND USEFUL FOR ANALYTICAL PURPOSES, AS WELL AS THE RESULTS OF ANY WORK DONE ON PROJECTING VARIOUS CATEGORIES OF CAPITAL FLOW.

CURRENT ACCOUNTS

7. THE METHODOLOGY HERE IS DISCUSSED IN SOME DETAIL IN PART II OF CPE/WP3(77)1. POSSIBLE AREAS OF DISAGREEMENT COULD RELATE TO EITHER (A) THE ASSUMPTIONS REGARDING GROWTH AND INFLATION FOR INDIVIDUAL COUNTRIES, OR (B) THE ELASTICITIES AND OTHER PARAMETERS EMPLOYED. IT MAY NOT BE PROFITABLE, AT THIS MEETING, TO GO INTO (B) IN MUCH DETAIL; THIS COULD RATHER BE THE SUBJECT OF DISCUSSION AMONG TECHNICAL EXPERTS AND ECONOMIC SPECIALISTS IF THE WORKING PARTY AGREED TO PRESS AHEAD WITH THIS EXERCISE. IT WOULD HOWEVER BE USEFUL, AND ULTIMATELY ESSENTIAL, TO HAVE NATIONAL VIEWS ON THE UNDERLYING ASSUMPTIONS. IT WOULD ALSO BE USEFUL TO

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HAVE AN EXCHANGE OF VIEWS ON THE SECRETARIAT'S
ASSESSMENT OF COMPETITIVE POSITIONS AS SET OUT IN
DES/NI(77)2, AND THE BEST WAY OF EXPLOITING THIS
MATERIAL. THIS COULD PROVIDE THE LEAD INTO A DIS-
CUSSION OF HOW POSSIBLE FUTURE EXCHANGE RATE CHANGES
SHOULD BE TAKEN INTO ACCOUNT.

NATIONAL PROJECTIONS

8. IT WOULD BE DESIRABLE TO MAKE USE OF PROJECTIONS
CARRIED OUT IN NATIONAL ADMINISTRATIONS TO THE MAXIMUM
EXTENT COMPATIBLE WITH AN INTERNATIONALLY CONSISTENT
FRAMEWORK. THE SECRETARIAT IS HOWEVER NOT AWARE OF
MANY EXPLICIT NATIONAL PROJECTIONS OF THE BALANCE OF
PAYMENTS IN THE MEDIUM TERM. IT IS HOPED THAT
DELEGATES WILL BE PREPARED TO MAKE AVAILABLE ANY
RELEVANT MATERIAL; IF DESIRED, THE SECRETARIAT WOULD
ARRANGE FOR DOCUMENTS TO BE CIRCULATED.

REPORTING BACK TO THE WORKING PARTY
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9. IT WILL BE NECESSARY FOR THE EXPERTS TO DECIDE ON
THE MOST EFFICACIOUS WAY OF REPORTING THEIR CONCLUSIONS
TO WORKING PARTY NO. 3, TO ENABLE THAT BODY TO TAKE A
POSITION ON FUTURE LINES OF WORK.

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